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Miyazawa Tries To Expedite Political Reform

Reeling from recent revelations of suspected corrupt behavior within the ruling Liberal Democratic Party and the related defeat in early February of a LDP-backed candidate in an upper house by-election in Nara prefecture, Prime Minister Kiichi Miyazawa has sought to expedite Diet action on legislation aimed at reforming Japan's political system. Mr. Miyazawa called on ruling party officials February 21 to compile a package of political reform bills by mid-March for enactment during the current Diet session. During a 90-minute meeting the prime minister outlined to Takashi Hasegawa, head of the LDP's political reform committee, chief cabinet secretary Koichi Kato and Home Affairs Minister Masajuro Shiokawa what he termed "urgently needed" changes in the political system. Mr. Miyazawa's four main targets are: correcting the disparities in the values of rural and urban votes; tightening controls on political fund-raising; stiffening penalties on politicians who have engaged in unethical and/or illegal behavior; and reducing the costs of elections and, in general, the expenses related to the "business of politics."

Mr. Miyazawa is scrambling to avoid the fate of former Prime Minister Noboru Takeshita, who was forced to announce his resignation in April 1989 to accept responsibility for the loss of public faith in the ruling party due to the Recruit Co., Ltd. influence-peddling scandal. Although LDP doyens last fall effectively killed a similar package of political reform measures advanced by former Prime Minister Toshiki Kaifu (see *JEI Report* No. 38B, October 11, 1991), the domestic political scene has been altered since then. In January the former secretary general for Mr. Miyazawa's faction was

their American manufacturing facilities. This act, if confirmed, would be anticompetitive and clearly within the reach of U.S. law since it occurs on American soil. As a practical matter, however, antitrust authorities have tended to deemphasize noncompetitive buying practices by U.S. firms on the grounds that exercising market power as a buyer is difficult, as is determining the extent of exclusion. Coming down hard on Japanese firms for these practices would represent a departure for Justice.

The ideas that the attorney general floated in February would go considerably beyond this situation, however. Press reports suggested that Mr. Barr was raising the possibility of targeting exclusionary buying practices in Japan and other foreign countries. In other words, a potential U.S. exporter shut out of the Japanese market because of these actions could be a victim. Stretching the law this far into an area of obvious extraterritoriality would appear to raise further doubts as to whether the law was protecting certain competitors (would-be American exporters) rather than U.S. competition in general. The question arises because anticompetitive actions in the Japanese market would appear to have negligible effects on competition in the U.S. market, the apparent objective of U.S. antitrust statutes up to now.

Mr. Barr's trial balloon has attracted considerable sniping within the Bush administration and in Tokyo as well. In part, the complaints in Washington have been over turf; market-opening measures in Japan and elsewhere traditionally have "belonged" mainly to the Office of the U.S. Trade Representative and the Departments of Commerce and State. Only Commerce among this triumvirate appeared to support Justice's emerging role.

In Japan the initiative was seen as an instance of meddling in that country's internal affairs. Japan has its own antitrust law; if an infraction of that law, which is broadly similar to U.S. statutes, occurs on Japanese territory, then Japan's law should be applicable, according to Tokyo. (For details of Japan's law, see *JEI Report* No. 20A, May 19, 1989.) Coincidentally, a blue-ribbon advisory panel to the FTC recommended March 2 that the maximum criminal penalty under the Antimonopoly Law be increased from the current ¥5 million (\$37,000 at ¥135=\$1.00) to at least ¥300 million (\$2.2 million), an action that Washington has advocated.

Within a week of Mr. Barr's disclosure, Tokyo had called for a review of his proposals during the May meeting of the competition committee of the Organization for Economic Cooperation and Development, of which both the United States and Japan are members. In this forum Tokyo expects to get the support of the European Community. While internal and external opposition to the trial balloon launched by Mr. Barr eventually may ground it, the heated oratory regarding U.S.-Japan relations in this election year may give the initiative enough of a high profile to keep it floating at least through November.

Douglas Ostrom

EC Clamors For Japanese Attention

The February 16-21 visit to Japan by European Community Commission vice president Sir Leon Brittan revealed anew the troubled state of Japan-EC ties, although it was overshadowed by flare-ups in U.S.-Japan frictions and domestic political scandals. Not only are EC officials concerned about the sharp rise in Japan's trade surplus with the community, but they equally are worried about what is seen as Tokyo's continued policy favoritism toward Washington. By stressing growing government and private ties, EC representatives are pressing Tokyo to give more attention to European matters and prevent simmering irritations from reaching the boiling point.

Japan's dollar-denominated trade surplus with the European Community reversed course in 1991. After two years of contraction, it jumped 48.4 percent to a record \$27.4 billion (see Table). While Japanese exports posted a solid 10.6 percent gain in 1991, imports from the EC shrank 9.3 percent, turning in their first negative performance since 1985. The figures are only slightly less

Japan's Trade with the European Community and Selected EC Members, 1987-91

a. in millions of dollars and percent change

	Exports		Imports		Balance	
	Value	Change	Value	Change	Value	Change
European Community						
1991	\$59,163	10.6%	\$31,788	-9.3%	\$27,376	48.4%
1990	53,510	11.7	35,063	24.6	18,447	-6.6
1989	47,908	2.2	28,146	16.9	19,761	-13.3
1988	46,873	24.3	24,071	36.2	22,802	13.9
1987	37,693	22.9	17,670	26.3	20,023	20.0
Great Britain						
1991	11,019	2.2	5,021	5.4	5,997	-0.3
1990	10,782	0.4	4,765	6.7	6,017	-4.1
1989	10,741	1.0	4,466	6.5	6,275	-2.5
1988	10,632	26.5	4,193	37.2	6,439	20.5
1987	8,400	26.4	3,057	-14.4	5,343	73.8
West Germany						
1991	20,620	16.0	10,730	-6.6	9,890	57.2
1990	17,777	11.7	11,487	27.7	6,290	-9.2
1989	15,920	0.8	8,995	10.9	6,925	-10.0
1988	15,793	23.1	8,101	31.8	7,692	15.1
1987	12,833	22.5	6,150	43.1	6,683	8.2
France						
1991	6,121	-0.0	5,808	-23.4	313	*
1990	6,124	15.6	7,586	26.8	-1,462	489.5
1989	5,298	6.3	5,546	28.6	-248	*
1988	4,986	24.2	4,313	50.2	673	-41.1
1987	4,014	27.3	2,871	54.8	1,143	-11.9
Italy						
1991	3,789	11.1	4,533	-9.5	-743	-53.5
1990	3,410	22.5	5,007	31.6	-1,597	56.1
1989	2,783	-0.0	3,806	31.6	-1,023	847.2
1988	2,787	32.5	2,895	35.5	-108	237.5
1987	2,103	22.1	2,135	42.8	-32	*

b. in millions of yen and percent change

European Community						
1991	¥7,969,888	3.1%	¥4,282,990	-15.6%	¥3,686,898	38.7%
1990	7,732,983	17.6	5,075,360	31.1	2,657,623	-1.8
1989	6,577,895	9.6	3,870,210	25.6	2,707,685	-7.3
1988	6,002,754	9.4	3,062,865	20.2	2,919,898	-0.1
1987	5,487,963	6.1	2,564,847	9.2	2,923,116	3.5
Great Britain						
1991	1,484,289	-5.0	676,539	-10.6	807,750	0.2
1990	1,562,177	6.0	756,426	23.4	805,751	-6.3
1989	1,473,087	8.2	612,966	14.3	860,121	4.2
1988	1,361,791	11.6	536,179	21.0	825,612	6.2
1987	1,220,781	8.7	443,096	-25.3	777,685	46.8
West Germany						
1991	2,779,085	8.3	1,445,161	-13.0	1,333,924	47.7
1990	2,564,922	17.3	1,661,698	34.3	903,224	-4.9
1989	2,186,563	8.1	1,237,021	19.2	949,542	-3.7
1988	2,022,411	8.1	1,036,659	16.2	985,752	0.8
1987	1,871,028	5.9	893,045	23.1	977,983	-6.0
France						
1991	824,471	-6.9	782,430	-28.8	42,041	*
1990	885,982	21.8	1,098,417	44.2	-212,435	413.3
1989	727,250	13.9	761,886	37.8	-34,636	*
1988	638,717	9.4	553,056	33.0	85,661	-49.0
1987	583,796	9.7	415,691	33.4	168,105	-23.8
Italy						
1991	510,137	15.4	611,633	-15.9	-101,496	-64.4
1990	442,149	15.5	727,191	38.6	-285,042	101.2
1989	382,827	7.3	524,524	41.3	-141,697	876.7
1988	356,830	17.0	371,337	19.3	-14,507	138.0
1987	305,111	5.1	311,206	24.1	-6,095	*

*Meaningless

Source: Ministry of Finance

striking when viewed in yen terms. Export growth slowed from 17.6 percent in 1990 to 3.1 percent last year, but imports recorded a 15.6 percent drop as opposed to a 31.1 percent increase the year before. That combination boosted the bilateral surplus 38.7 percent after three straight years of modest reductions.

Trade with four EC members — Great Britain, Germany, France and Italy — continued to represent the bulk of activity; the four countries typically buy about 70 percent of Japan's exports to the community and supply 80 percent-plus of Japan-bound shipments. These trading partners, however, accounted for only \$15.5 billion or 56.5 percent of Japan's trade surplus with the entire community. Moreover, only the imbalance with Germany went up, most likely because of increased demand for imports caused by reunification. Great Britain alone managed to increase exports to Japan, as the slowing Japanese economy pulled in fewer imports.

Just as in U.S.-Japan relations, trade in motor vehicles is a prominent issue in EC-Japan ties. European automakers have enjoyed rising sales in Japan thanks to strong marketing efforts and investments in their own dealer networks. Slower Japanese economic growth, however, trimmed total car sales in Japan last year and cut sales of imported vehicles 11.1 percent. On behalf of frustrated European automotive industry officials Peter Woods, president of Rover Japan, Ltd. and head of the European Business Council's automobile committee, recently charged Tokyo with breaking its word, pointing to a 1991 Japan-EC agreement that calls for "mutually supportive growth" of imports in each market (see *JEI Report* No. 20B, May 24, 1991). While saying that Japan's car market basically is open, Mr. Woods pushed for action by Tokyo to counter consumers' psychological resistance to buying foreign. This "affirmative action" plan would include raising the import share of Japan's car market from the current 4 percent-plus to 10 percent in 1995 and then to 17.5 percent by the end of this century.

Mr. Woods, who led a committee delegation to Tokyo on the heels of President Bush's Japan trip, said that his group would petition the EC Commission to work for an import-expansion pledge from Tokyo similar to that gained by Mr. Bush. The January pledges by Japan's five biggest automotive manufacturers to boost imports of American cars and auto parts (see *JEI Report* No. 2B, January 17, 1992) had prompted the EC Commission to warn, "We are now inclined to think there is discrimination [by Japan in automotive trade]. To the extent that there is discrimination, we will oppose it." That warning presages an EC challenge to Japan's automotive pledges to the United States, just as the community successfully challenged some aspects of the 1986 U.S.-Japan semiconductor trade agreement. Mr. Woods noted, however, that the picture is not completely bleak. "There have been a large number of parts manufacturers in Japan from Europe for quite a long time," he said, adding, "Most of them are really quite successful."

As for sales of Japanese cars in the community, Tokyo and Brussels continue to haggle over the meaning of their 1991 pact. While it is clear that Japanese automakers will be allowed to expand EC sales gradually through 1998 and then have unhindered access to the EC market, the pact is silent as to exactly what constitutes an "import." European automotive makers remain split over whether vehicles produced by Japanese subsidiaries within the community qualify as imported makes or domestics. The Association of European Automobile Constructors issued a call January 27 for the EC to classify as imports from Japan any cars made by Japanese subsidiaries in the United States and shipped to the European Community. Since the Office of the U.S. Trade Representative already has sided with Honda Motor Co., Ltd.'s American subsidiary in support of a designation of its cars as U.S.-sourced imports in a similar French case, a clash between Washington and Brussels seems inevitable on the communitywide issue.

During his visit to Japan the EC's Mr. Brittan pushed Tokyo for faster liberalization of Japanese service markets, particularly in the financial sector. In an echo of U.S. demands the commission vice president called for quicker deregulation of interest rates and greater opportunities for foreign entry into Japanese financial markets, especially insurance. Claiming that Tokyo so far has

avored American companies in its deregulation drive, Mr. Brittan sought better treatment of European banks and securities firms. In his dual role as EC commissioner for competition as well as EC Commission vice president, Mr. Brittan applauded recent enforcement actions by Japan's Fair Trade Commission, but he charged that both government and industry leaders in Japan continue to favor cartels and other anticompetitive arrangements at home. He did not comment, however, on a recent Department of Justice decision to explore the use of U.S. antitrust laws to combat such Japanese practices (see preceding article).

Continuing an EC attempt to engage Japan in constructive activities, Mr. Brittan pointed out as areas of promising cooperation several joint research and development agreements at both the government and the private level. On February 24, for example, the European Space Agency and Japan's Science and Technology Agency tentatively agreed to codevelop a space shuttle and related equipment. The effort would build on existing, separate development efforts: ESA's Hermes manned space shuttle and STA's unmanned HOPE (H-II orbiting plane) project. Also included would be training of Japanese and European astronauts.

The EC is pressing for Japanese cooperation on other fronts as well. Last November, for example, the EC urged Tokyo to take a more active role in the stabilization and economic reform of the former Soviet Union and Eastern European nations. At a planned March 9-10 ministerial-level meeting the two sides are expected to build on their historic 1991 pact calling for greater political and economic cooperation (see *JEI Report* No. 28B, July 26, 1991). Trade, however, remains the central issue in bilateral talks. Japan and the European Community will exchange lists of trade barriers in April or May, perhaps leading to talks similar to the U.S.-Japan Structural Impediments Initiative discussions.

Jon Choy

Washington, Tokyo Examine Ways To Revive SII Process

Japanese government officials never were comfortable with the system put in place to monitor implementation of the sweeping structural economic reforms promised by Tokyo and Washington in the June 1990 report on the Structural Impediments Initiative talks. They worried that the U.S.-crafted follow-up mechanism would encourage the White House to expect short-term solutions to problems that were solvable only over time. More important, Japan's negotiators felt the tracking system adopted could turn the yearlong SII exercise into an open-ended process.

Tokyo's worst fears materialized last November when Bush administration officials from the president on down started talking about the need to "revitalize" SII. That proposal caught the Japanese government off guard. Trade officials knew only too well from the first SII progress report and the discussions preceding the release of this May 1991 document that their American counterparts were dissatisfied with what Tokyo had done or planned to do to address exclusionary business practices in Japan, *keiretsu* relationships and land-use policies, three of the six areas identified by Washington as contributing to the perpetuation of big bilateral trade imbalances (see *JEI Report* No. 22B, June 14, 1991). Nothing said at the time or included in the report suggested, however, that Washington's criticism would lead where it did.

Not surprisingly, Japanese trade policymakers reacted coolly when Washington first floated the idea of injecting new life into the SII process. Their response did not change even after White House officials sought to reassure them that all the administration had in mind was new or expanded commitments from Tokyo for action in the six areas targeted originally, not extension of the SII exercise to other fields. In the end, though, the government of Kiichi Miyazawa reluctantly agreed during Mr. Bush's January Japan trip to "reinvigorate" SII by "strengthening policy initiatives, including new commitments to address the aspects of the business environment of both countries that might impede structural reform, including market access, foreign investment and competitiveness."